

## Message Text

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PAGE 01 BRUSSE 03150 01 OF 02 180716Z  
ACTION EB-08

INFO OCT-01 EUR-12 IO-13 ISO-00 AID-05 CIAE-00 COME-00  
FRB-03 INR-10 NSAE-00 USIA-06 TRSE-00 XMB-02  
OPIC-03 SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15  
STR-07 CEA-01 PA-01 /100 W  
-----089222 180940Z /23

R 171812Z FEB 78  
FM AMEMBASSY BRUSSELS  
TO SECSTATE WASHDC 4975  
INFO AMEMBASSY BONN  
AMEMBASSY COPENHAGEN  
AMEMBASSY DUBLIN  
AMEMBASSY LONDON  
AMEMBASSY LUXEMBOURG  
AMEMBASSY PARIS  
AMEMBASSY ROME  
AMEMBASSY THE HAGUE  
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ALSO FOR OECD; GENEVA FOR MTN; ALSO FOR USEC

PASS TREASURY, FEDERAL RESERVE

E.O. 11652: N/A  
TAGS: EFIN, BE  
SUBJECT: BELGIAN 1978 BUDGET DEFICIT REVISED UPWARDS

REF: (A) 77 BRUSSELS 9236; (B) 77 BRUSSELS 15038;  
(C) 77 BRUSSELS A-57

1. SUMMARY. THE BELGIAN FINANCE MINISTER HAS ANNOUNCED  
THAT 1977 AND 1978 CURRENT NATIONAL DEFICITS WILL BE CON-  
SIDERABLY MORE THAN FORECAST EARLIER. FOR THIS YEAR,  
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PAGE 02 BRUSSE 03150 01 OF 02 180716Z

CONTINUED SLOW GROWTH AND EASING INFLATION MEAN A PROBABLE  
DEFICIT OF AT LEAST BF 65 BILLION--A FIGURE THAT IS LIKELY  
TO GROW STILL MORE ONCE THE GOB FINISHES A REASSESSMENT IN  
SEVERAL WEEKS' TIME OF ITS SPENDING OBLIGATIONS. JOINED  
TO AN ACTIVE PUBLIC INVESTMENT PROGRAM, THE INCREASE DOES  
GIVE BELGIUM A RESPECTABLE RECORD ON ECONOMIC STIMULATION--  
BUT AT THE COST OF ANOTHER LARGE HIKE IN PUBLIC DEBT, AS

WELL AS CONTINUED PRESSURE ON INTEREST RATES AND ON  
CENTRAL BANK EFFORTS TO MAINTAIN A STABLE BELGIAN FRANC.  
END SUMMARY.

2. SPEAKING BEFORE THE HOUSE OF REPRESENTATIVES  
FEBRUARY 14, FINANCE MINISTER GASTON GEENS DELIVERED A  
FORMAL GOVERNMENT MESSAGE ON BELGIUM'S CURRENT BUDGETARY  
SITUATION. IT WAS A SOUR VALENTINES BON-BON. FOR 1977,  
GEENS CONFIRMED THAT TAX RECEIPTS WERE FAR BELOW EXPECTA-  
TIONS DUE TO LOWER REAL GNP GROWTH (1.7 PERCENT) AND  
INFLATION (7.8 PERCENT ON ANNUAL AVERAGE); THE RESULT IS A  
DEFICIT IN CURRENT OPERATIONS OF BF 75.1 BILLION. THIS  
COMPARES TO A BF 60.3 OPERATING DEFICIT IN 1976. ADDED TO  
CAPITAL SPENDING, THE NATIONAL DEBT ROSE BY BF 167.4 BIL-  
LION. THIS RED INK IS ABOUT TWO AND A HALF TIMES THAT  
PROJECTED BY THE GOB ONE YEAR AGO (SEE REF C).

3. THE 1978 FISCAL OUTLOOK IS LITTLE BETTER, ACCORDING TO  
GEENS. ALTHOUGH OFFICIAL REVISIONS ARE NOT YET COMPLETE,  
HE INDICATED THAT THE GOVERNMENT WILL ALTER THE RECEIPTS  
PORTION OF ITS ORIGINAL OPERATING BUDGET ESTIMATES (DE-  
VELOPED LAST SUMMER, REF A), MORE OR LESS AS FOLLOWS  
(BILLIONS OF BF):

1. 1977 FINAL 2. 1978 INITIAL 3. 1978 REV.

EXPENSES	860.6	956.1	956.1(?)
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PAGE 03 BRUSSE 03150 01 OF 02 180716Z

RECEIPTS	785.5	932.2	892-897
DEFICIT	75.1	23.9	60-65

4. THE BASIS FOR THE RECALCULATION IS A REVISION UPWARDS  
OF PROJECTED REAL GNP GROWTH THIS YEAR FROM 3 TO 3.4  
PERCENT, A REDUCTION IN ANTICIPATED INFLATION FROM  
8.2 TO 5.7 PERCENT, AND ADJUSTMENTS TO COMPENSATE FOR THE  
1977 TAX SHORTFALL. THE CURRENT DEFICIT WILL THUS AT  
LEAST DOUBLE, BUT GEENS VOWED THAT TAXES WILL NOT BE RAISED  
THIS YEAR. AS FOR 1978 EXPENDITURES, THE MINISTER SAID  
THAT ANY UNAVOIDABLE INCREASES(E.G. FOR UNEMPLOYMENT  
AND OTHER TRANSFER PROGRAMS)  
WOULD BE MATCHED BY REDUCED SPENDING IN OTHER SECTORS.  
HE OFFERED NO CONCRETE CUTBACKS OR NEW REFORMS, HOWEVER;  
THESE ARE TO BE ANNOUNCED IN A FEW WEEKS' TIME. GEENS  
CHARACTERIZED THE GOVERNMENT'S FISCAL POLICY AS AIMED AT  
MEETING EC AND OECD DEMANDS FOR FURTHER EXPANSION OF THE  
BELGIAN ECONOMY WHILE AT THE SAME TIME PROTECTING INTER-  
NATIONAL CONFIDENCE IN THE BELGIAN FRANC.

5. COMMENT. GEENS' STATEMENT CAME AS A GENERAL DIS-  
APPOINTMENT, NOT SO MUCH FOR WHAT IT SAID, AS FOR WHAT IT  
LEFT OUT. THERE IS, TO START WITH, CONSIDERABLE DOUBT

THAT THE GOB CAN HOLD THE 1978 CURRENT DEFICIT TO BF 65 BILLION. VIRTUALLY NO FORECASTERS BELIEVE THAT THE BELGIAN ECONOMY--WHICH IS TOWED MAINLY BY THE GERMAN LOCOMOTIVE--CAN GROW MUCH MORE IN REAL TERMS THIS YEAR THAN THE 2.5 PERCENT PROJECTED BY THE EC, OECD AND MOST LOCAL OBSERVERS (INCLUDING THE GOVERNMENT'S OWN MACRO-ECONOMIC UNIT IN THE MINISTRY OF ECONOMIC AFFAIRS). THERE IS ALSO WIDE-SPREAD SKEPTICISM THAT THE CURRENT COALITION, PLAGUED BY INTERNAL DIVISIONS AND FACING A LIKELY OVERRUN IN UNEMPLOYMENT COMPENSATION ALONE ON THE ORDER OF BF 15 BILLION, WILL BE ABLE TO HOLD CURRENT EXPENSES TO PREVIOUSLY-ESTABLISHED LEVELS. THE 1978

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PAGE 01 BRUSSE 03150 02 OF 02 180719Z

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CURRENT DEFICIT THUS MAY IN FACT BE CLOSER TO THE BF 85-95 BILLION RANGE. COUNTING EXPENDITURE OF AT LEAST MOST OF THE BF 200 BILLION INVESTMENT BUDGET, THIS IMPLIES TOTAL INTERNAL NATIONAL FINANCING REQUIREMENTS THIS YEAR OF AROUND BF 275-300 BILLION.

6. ONE CAUSE FOR GENERAL CONCERN WITH THIS TREND IS THE GROWING SIZE OF THE NATIONAL DEBT. AT THE END OF 1977, IT STOOD AT BF 1,229 BILLION. ALTHOUGH VIRTUALLY ALL INTERNAL, THIS LEVEL IS RELATIVELY ONE OF THE HIGHEST IN THE INDUSTRIALIZED WORLD. FOR 1978, IT WILL AMOUNT LIMITED OFFICIAL USE

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PAGE 02 BRUSSE 03150 02 OF 02 180719Z

TO AN ESTIMATED 44 PERCENT OF GNP OR ABOUT US \$3700 PER CAPITA--COMPARED TO ROUGHLY 36 PERCENT OR \$3600 PER CAPITA IN THE U.S.

7. AS GEENS STATED, THIS LEVEL OF DEFICIT SPENDING SHOULD ADD SOME STIMULUS TO THE ECONOMY. GOVERNMENT SPENDING LAST YEAR REPRESENTED ABOUT 8 PERCENT OF GNP; FOR 1978, THIS COULD STRETCH TO 8.5 - 9 PERCENT (EXCLUDING DEBT AMORTIZATION, THE TWO FIGURES ARE 6 PERCENT AND 6.5 - 7 PERCENT). IN ITS JUST-RELEASED 1977 ANNUAL REPORT, HOWEVER, THE BELGIAN NATIONAL BANK (BNB) POINTS THAT, IN BELGIUM, AN UNUSUALLY LARGE PROPORTION OF PUBLIC SPENDING SPILLS OVER INTO IMPORTS OR GOES INTO SAVINGS, DIMINISHING ITS INTERNAL ECONOMIC IMPACT. THE BNB STRESSES RATHER THE ADVERSE EFFECTS OF THE TREASURY'S EVER GROWING PRESENCE ON THE LOCAL MONEY MARKET. INCREASED PUBLIC BORROWING HAS KEPT INTEREST RATES UP (IN A SLACK MARKET), COMPROMISED PROPER MANAGEMENT OF THE MONEY SUPPLY AND CREATED PRESSURE FOR MORE TAXATION, ALL EXACERBATING BELGIAN "STAGFLATION". THIS INTERNAL DISEQUILIBRIA HAS COMPLICATED THE BANK'S EFFORTS IN THE PAST TO MAINTAIN A STABLE BF, IT CONCLUDES, AND WILL CONTINUE TO DO SO. CHAMBERS

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## Message Attributes

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